

46th India Fellowship Seminar

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Role of the CEO vs Appointed Actuary

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Agenda



- Case study background
- Roles and responsibilities of CEO and Appointed Actuary
- Question 1
 - Discuss if CEO's requests are justified
 - Professional considerations under which requests are appropriate
 - Professional considerations under which requests are inappropriate
- Question 2
 - Professional considerations for CEO if Appointed Actuary refuses
- Question 3
 - Responsibilities of CEO if Appointed Actuary accepts
- Key Learnings

Case Study Background



Case study background (1/4)



- Have been the Appointed Actuary of a successful life insurance company
- Known to be a very prudent actuary
- Recently appointed as the Chief Executive Officer (CEO)
- Deputy is now promoted to be the Appointed Actuary
- Company faces number of challenges including, Covid-19 leading to
 - Reduced new business volumes
 - Stock market crash
 - Hardening reinsurance premium rates
 - Lowered solvency margins

Case study background (2/4)



Request 1

Release the prudent margins in the reserves

Argument

“After all, it is times such as these that the prudent margins should be used”

Consideration

- MAD exists to absorb unexpected shocks
- Take into account the actuarial and regulatory requirements

For the context of this case study, assuming that the company's margins are in excess of minimum requirements as per APS7.

Case study background (3/4)



Request 2

Not increasing the term insurance premium rates

Argument

“We can always lower the reliance on reinsurer. Surely, we have a lot of experience ourselves to underwrite the business?”

Consideration

- Not increasing premiums to remain competitive
- Reducing reinsurance cession through stringent underwriting to manage mortality costs

Each scenario must be examined separately and together.

Case study background (4/4)



Request 3

Relax some of the pricing bases to be able to re-price the non-participating savings business more competitively in order to boost the new business volumes

Argument

“There is no point having a highly profitable product that can’t be sold”

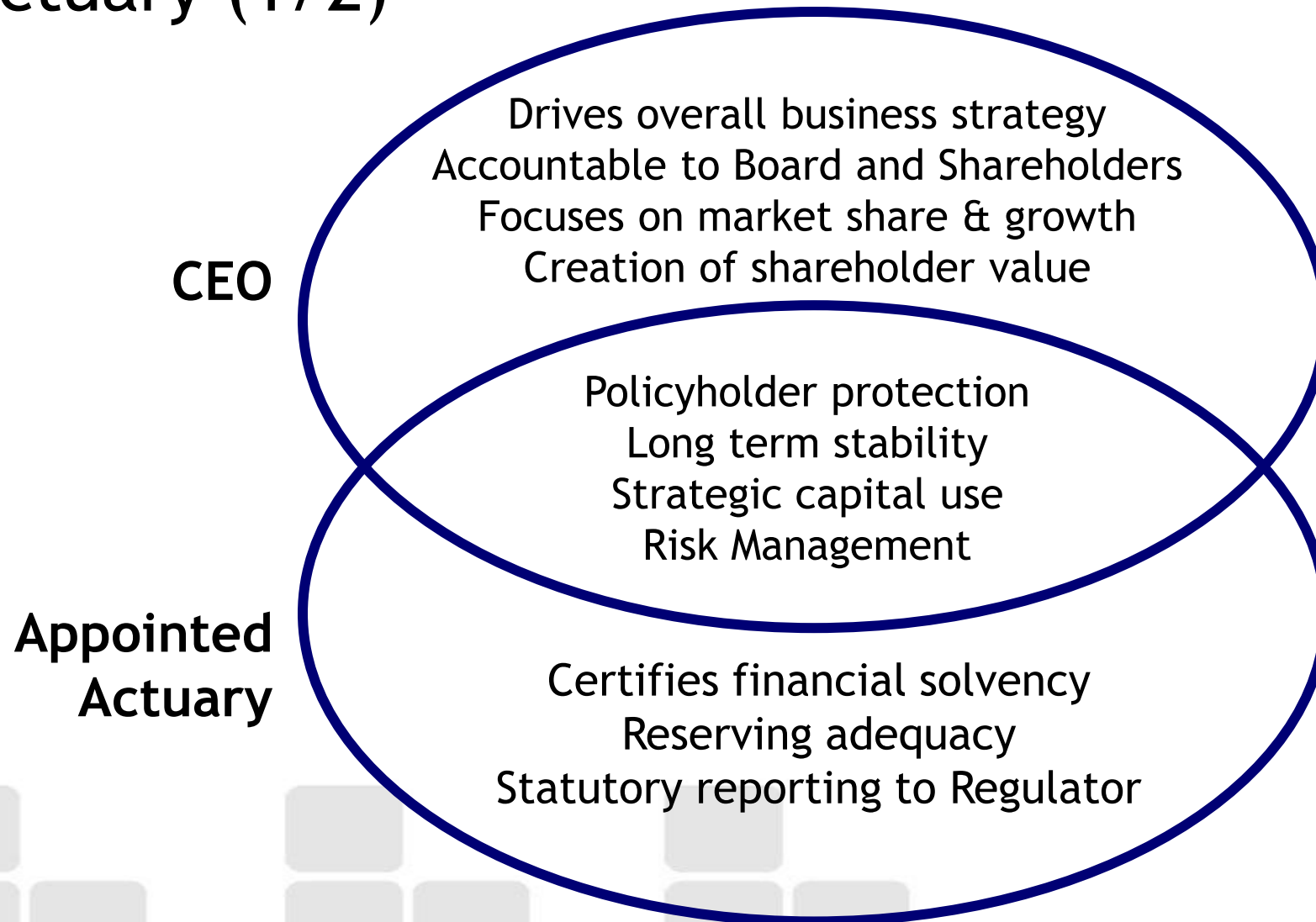
Consideration

- Product profitability on paper versus product competitiveness in the market
- If pricing bases are relaxed, the product becomes more attractive and sales follow given that repricing is supported by Appointed Actuary’s assessment

Roles and responsibilities of CEO and Appointed Actuary



Roles and Responsibilities of CEO & Appointed Actuary (1/2)



Roles and Responsibilities of CEO & Appointed Actuary (2/2)



Would I have agreed to the requests if I was the Appointed Actuary?

- Roles influence perspective:
 - CEO → strategic/commercial lens
 - Appointed Actuary → prudential/regulatory lens
- Important Governance insight is to maintain separation of roles
 - Respect for independent challenge
 - Avoidance of compulsion
 - No longer bound by “*Duties and Obligations of an Appointed Actuary*” as stated in the IRDAI regulations

Question 1

- Discuss if CEO's requests are justified



Q 1- Discuss if CEO's requests are justified (1/6)



Release of prudent margins

Justified if:

- MADs are meeting minimum requirements as per APS7
- Helps in lowering capital strain
- Supports new business growth
- Supports business continuity
- Policyholder interests are safeguarded

Q 1- Discuss if CEO's requests are justified (2/6)



Release of prudent margins

Not justified if:

- Compromises reserve adequacy or policyholder protection
- Directed at only managing reported solvency/ profitability in short term
- Investigation suggests inconsistency with *PCS Clause 4.1 (Standards for Advice)*, which requires an actuary to use best judgement in formulating advice and to have proper regard to relevant professional guidance and other guidance.

Q 1- Discuss if CEO's requests are justified (3/6)



Not Increasing Term Insurance Premium Rates

Justified if:

- Existing premium rates are adequately priced
- Maintain market competitiveness
- Credible internal mortality experience
- Adequate capital buffer and risk appetite to support higher retention
- Underwriting capability is robust and stringent
- Product pricing and reinsurance change approved Product Management Committee

Q 1- Discuss if CEO's requests are justified (4/6)



Not Increasing Term Insurance Premium Rates

Not justified if:

- Existing premium rates no longer reflect the underlying emerging risk
- May lead to anti selection risk
- Increased retention may not be consistent with the company's risk appetite
- Reinsurer may possess broader and more recent trend in mortality experience
- Covid uncertainty to effect mortality, lower reinsurance support may lead to higher risk exposure

Q 1- Discuss if CEO's requests are justified (5/6)



Repricing Non-Par Savings Business

Justified if:

- There may be a growing market available for guaranteed savings products
- Proposition supports better policyholder returns
- Availability of assets for hedging
- Increased non-par savings sales may improve the overall profitability

Q 1- Discuss if CEO's requests are justified (6/6)



Repricing Non-Par Savings Business

Not justified if:

- Pricing bases are weakened purely for commercial reasons
- Repricing with incorrect basis may create future profitability and solvency concerns
- Suggested repricing may affect the financial viability of the product
- Suitable assets are unavailable for hedging future reinvestment risk

Question 1

- Professional considerations under which requests are appropriate



Q1-Professional considerations - Appropriate(1/7)



Release of prudent margins

IRDAI Actuarial, Finance and Investment function Regulation 2024, Schedule I Part II, Clause 5(1)(ii):

APS 7, 2.1:

“Regulations prescribe the use of a gross premium valuation method using parameters considered by the Appointed Actuary to be appropriate. The Actuary is expected to incorporate margins in the best estimate assumptions, in order to incorporate a level of prudence.”

Considerations:

- Existence of margins implies that they are intended to provide protection against adverse experience
- Reasonable to request the Appointed Actuary to review whether the current level of prudence is appropriate for various assumptions

Q1-Professional considerations - Appropriate(2/7)



Release of prudent margins

APS 1, 2.2:

“An Appointed Actuary should ensure, so far as is within his/her authority, that the life insurance business of the company is conducted on sound financial lines and that he/she has regard to Policyholders’ Reasonable Expectations (PRE).”

Considerations:

- If assessment concludes to not pose any threat to financial stability of the company
- Policyholder interests are guarded

Q1-Professional considerations - Appropriate(3/7)



Release of prudent margins

APS 7, 3.1:

“The use of a low MAD may mean that the reserve will be insufficient to provide for policyholders in a quite plausible adverse scenario, which, if it were to lead to policyholder loss, would be professionally abhorrent. However, the use of a high MAD, providing greater security of policyholder interests, also implies the tying up of greater amounts of capital”

Considerations:

- If experience investigations demonstrate greater certainty
- If actual experience is more favorable than previously assumed
- If existing margins are significantly above what is required after incorporating existing experience

Q1-Professional considerations - Appropriate(4/7)



Release of prudent margins

APS 1, 11.4(iii)(c):

“any recommendations made have to be justified by reference to the Appointed Actuary’s assessment of the company’s continuing ability to meet its statutory solvency requirements.”

IRDAI (EOM including Commission) Regulations, 2024, Part II(5)(1):

*“(a) the projected requirements of capital during the said financial year;
(b) projection of solvency margin on a quarterly basis;”*

Considerations:

- A review of margins may be a legitimate management request where solvency is under pressure
- If business plan projection suggests release of prudent margins does not affect future solvency margin

Q1-Professional considerations - Appropriate(5/7)



Not Increasing Term Insurance Premium Rates

APS 34, 2.7.2:

“The actuary should consider the appropriateness of the assumptions underlying each component of the methodology used.”

APS 34, 2.5.1:

“The actuary should consider whether sufficient and reliable data are available to perform the actuarial services.”

Considerations:

- If a holistic investigation of underlying experience supports the current premium rates
- If premium rates support financial viability of the product

Q1-Professional considerations - Appropriate(6/7)



Not Increasing Term Insurance Premium Rates

IRDAI (Re-insurance) Regulations, 2018 (3)(2)(A)(a):

“Every Indian Insurer shall maintain the maximum possible retention in commensuration with its financial strength, quality of risks and volume of business”

Considerations:

- Given we are a successful insurance company, reliance on reinsurance should be reduced over time
- If company's underwriting is strengthened and made more stringent to onboard acceptable level of risk
- If does not impact company's financial stability adversely

Q1-Professional considerations - Appropriate(7/7)



Repricing Non-Par Savings Business

APS 1, 6.1:

“The Appointed Actuary must be satisfied that premium rates for new business are appropriate, that is to say sufficient in due course to enable the company to meet its liabilities.”

Considerations:

- If the existing pricing bases were genuinely set conservatively relative to current market conditions
- If the investment return assumption was set significantly below current corporate bond yields or Gsec returns, a repricing to reflect current conditions is appropriate
- If new distribution channels or improved expense efficiency genuinely reduce the company's cost base

Question 1

- Professional considerations under which requests are inappropriate



Q1-Professional considerations-Inappropriate(1 / 7)



Release of prudent margins

APS 1, 11.1:

“In any report to the IRDA, the Appointed Actuary should use his/her best endeavors to ensure that; the financial results are presented in a way that demonstrates the true underlying position of the company”

PCS, 2.2:

“Members have a duty to the actuarial profession and clients and must always act honestly and with integrity.”

Considerations:

- If directed at only managing reported solvency/profitability in short term
- If lowering of margins undermines the company’s financial stability
- If an independent peer reviewer also suggests against release of margins given market scenario

Q1-Professional considerations-Inappropriate(2/7)



Release of prudent margins

APS 1, 5.5 (xii):

“The Appointed Actuary must have regard to all aspects likely to affect the financial condition of the company, in particular the following; the current and likely future mortality and morbidity experience.”

Considerations:

- If current Covid related experience suggests further strengthening of reserves, releasing of margins would be contradictory
- If the current best estimates does not account for the latest emerging experience

Q1-Professional considerations-Inappropriate(3/7)



Release of prudent margins

APS 7, 3.1:

“The Actuary is required to exercise professional judgement in determining the appropriate level of MADs. The prime consideration must be the protection of the interests of existing policyholders, including the reasonable expectations of participating policyholders (PRE). The Actuary must, therefore, consider the range of plausible future scenarios and ensure that the reserve is sufficient in all cases.”

Considerations:

- If release of prudent margins affects company’s ability to honour future commitments
- If affects ability to absorb future shocks due to adverse experience

Q1-Professional considerations-Inappropriate(4/7)



Not Increasing Term Insurance Premium Rates

APS 1,10.1:

“Where an Appointed Actuary has to use judgement, this can be based in some circumstances on his/her estimates of the most probable outcome. If, however, the solvency of the company is involved, then the Appointed Actuary must apply much more rigorous standards.” The Appointed Actuary shall also ensure that the ratio of the available solvency margin to the required solvency margin is reasonable taking into consideration the risk profile of the assets and liabilities.”

Considerations:

- Have an impact on future solvency projections
- Increasing retention may lead to higher claim volatility

Q1-Professional considerations-Inappropriate(5/7)



Not Increasing Term Insurance Premium Rates

APS 1, 6.1:

“The Appointed Actuary must be satisfied that premium rates for new business are appropriate, that is to say sufficient in due course to enable the company to meet its liabilities.”

Considerations:

- If the Appointed Actuary is not satisfied that existing term premium rates are appropriate in light of emerging experience
- If company's mortality experience trend is aligned with reinsurer's rate

Q1-Professional considerations-Inappropriate(6/7)



Not Increasing Term Insurance Premium Rates

APS 3, 2.3.2:

“The report should indicate, where appropriate, any financially significant reinsurance arrangement.”

APS 3, 2.1.6:

“A review of the financial investigations with special reference to any future external factors which present a threat to the life office’s financial security and the options open to the life office to deal with those factors.”

Considerations:

- If the Appointed Actuary is unable to justify a significant change in retention levels
- A major increase in retention impact future solvency of the company

Q1-Professional considerations-Inappropriate(7/7)



Repricing Non-Par Savings Business

IRDAI (Insurance Products) Regulations, 2024 , Chapter II (6)(3)(a):

“All products, offered for sale, shall be reviewed by Appointed Actuary at least once a year taking into account:

- i. the reasonable expectation of all stakeholders, including policyholders;*
- ii. financial viability of the products;*
- iii. emerging risks and experience under the products;”*

Considerations:

- If product is not financially viable
- If expectations all stakeholders is affected adversely

Question 2

- Professional considerations for CEO if Appointed Actuary refuses



Q 2-Professional Considerations- AA refuses(1 / 4)



PCS, 6.1:

" Actuaries must ensure that their professional judgement is not compromised, and is not seen to be compromised, by any bias, conflict of interest or the undue influence of others."

Considerations:

- Continuing to urge the Appointed Actuary, particularly after a refusal, might result in decisions which may not be in best interest of the company
- Must not use position of authority as an instrument of pressure
- Must use actuarial knowledge to propose rather than influence the decisions of the Appointed Actuary

Q 2-Professional Considerations- AA refuses(2/4)



PCS, 2.4:

“Healthy debates and expressing different opinions on matters of professional interest are good for the betterment of the actuarial profession. However, such debates and opinions must demonstrate due respect and must not bring disrepute to the actuarial profession or other members or the professional body. Members must be aware of any requirements of confidentiality and must respect the same.”

Considerations:

- Should encourage open professional discussion
- Demonstrate the business rationale clearly with actuarial arguments

Q 2-Professional Considerations- AA refuses(3/4)



APS 1(B)(3):

“Any other actuary who is on the Board of Directors owes a special responsibility to the Appointed Actuary and should take care to respect the status of the Appointed Actuary.”

APS 1(B)(4):

“The requirement of paragraph (3) above also applies to any other actuary holding a managerial or other position of authority in the company.”

Considerations:

- Should respect the professional independence of the Appointed Actuary
- A refusal based on professional judgement should not be viewed as resistance to management

Q 2-Professional Considerations- AA refuses(4/4)



Further professional considerations:

- Professional obligations persist; cannot act contrary to professional ethics even in an executive role
- Request documentation for reasons for refusal and conclusions of investigations conducted
- Review risk framework to determine whether concerns can be addressed through additional capital, reinsurance arrangements, or other risk mitigants
- Discuss matters in governance forums such as PMC, Risk/Audit Committee
- Balance shareholder expectations with policyholder protection

Question 3

- Responsibilities of CEO if Appointed Actuary accepts



Q 3- CEO's responsibilities - AA accepts (1 / 5)



APS 1, 2.3:

“The essence of a profession lies in upholding its standards, technical and ethical, in the public interest. As a member of the Institute of Actuaries of India (IAI), every Actuary has the responsibility to maintain the highest professional standard envisaged by the IAI.”

Considerations:

- As a Fellow member of IAI, we are subject to the PCS obligations regardless of executive role
- Should facilitate policyholder interests are protected
- Inducing the AA to compromise actuarial standards constitutes a failure of the CEO's own obligation as an executive and an actuary to maintain the highest professional standard in the public interest

Q 3- CEO's responsibilities - AA accepts (2/5)



IRDAI Master Circular(Insurance Products), 2024, 5.5:

“The CEO of the insurer shall have an overall responsibility for ensuring that a robust due diligence process is in place to mitigate risks arising from the products and will countersign the relevant certifications.”

Considerations:

- The overall responsibility of product modifications approved by the PMC fall under my purview

Q 3- CEO's responsibilities - AA accepts (3/5)



IRDAI Actuarial, Finance and Investment function Regulation 2024, Schedule I Part II, Clause 9(3), Obligations of the insurer:

“The insurer shall ensure that different functions of the insurer provide adequate support to the Appointed Actuary in discharging his or her duties and obligations.”

Considerations:

- As the principal officer of the insurer, should support and enable the Appointed Actuary in the decisions taken

Q 3- CEO's responsibilities - AA accepts (4/5)



IRDAI (Re-insurance) Regulations, 2018 (3)(3)(A)(d) :

“Every Indian Insurer shall file with the Authority any new or revision of Re-insurance arrangement (made after the final Re-insurance Programme under 3(3)(A)(c) above is submitted), giving full details with related documents, reasons for such an arrangement together with Board approved copy within 15 days of approval of the Board.”

Considerations:

- Any change in reinsurance arrangement post final annual submission needs to be filed with the Authority with related documents and reasoning

Q 3- CEO's responsibilities - AA accepts (5/5)



Further considerations:

- Should maintain detailed documentation and audit trail for investigation conclusions and decisions taken to maintain accountability
- Should ensure Board is aware of risks and implications of any decision taken
- Must closely monitor current and projected solvency, experience and customer impact
- As principal officer of the company, responsible for maintaining the financial stability
- Uphold integrity, competence, and fairness

Key Learnings



Key Learnings

- Actuarial independence is critical during financial stress
- Commercial pressures should not override professional standards
- Strong governance protects both insurer and policyholders
- Leadership grounded in integrity and objectivity is essential when roles transition from technical to executive
- Clear separation of duties is essential



Thank You

